

**VILLAGE OF TUSTIN, MICHIGAN**

**FEBRUARY 29, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                               |  |                          |
|---|-------------------------------|--|--------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Government Name<br><b>Village of Tustin</b>            | County<br><b>Osceola</b> |
| Audit Date<br><b>2/29/04</b>  | Opinion Date<br><b>7/7/04</b> | Date Accountant Report Submitted to State:<br><b>8/27/04</b> |                          |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |  |                         |                        |
|---|--|-------------------------|------------------------|
| Certified Public Accountant (Firm Name)<br><b>Baird, Cotter &amp; Bishop, P.C.</b>                          |  |                         |                        |
| Street Address<br><b>134 W. Harris Street</b>   |  | City<br><b>Cadillac</b> | State<br><b>MI</b>     |
| Accountant Signature<br> |  | ZIP<br><b>49601</b>     | Date<br><b>8/27/04</b> |

REPORT OF EXAMINATION  
VILLAGE OF TUSTIN, MICHIGAN  
FEBRUARY 29, 2004

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1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
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JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

July 7, 2004

INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Tustin  
Tustin, Michigan

We have audited the accompanying general-purpose financial statements of the Village of Tustin, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Village of Tustin, Michigan, management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general-purpose financial statements referred to above do not include a general fixed assets account group, which should be included to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except that the omission of the information described in the preceding paragraph results in an incomplete presentation, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Tustin, Michigan, as of February 29, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying financial information listed as "Financial Statements of Individual Funds" and "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

VILLAGE OF TUSTIN, MICHIGAN  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUP

FEBRUARY 29, 2004

|  |  | <u>GOVERNMENTAL FUND TYPES</u> |                            |
|--|--|--------------------------------|----------------------------|
|  |  | <u>GENERAL</u>                 | <u>SPECIAL<br/>REVENUE</u> |
| <u>ASSETS AND OTHER DEBITS</u>                                 |  |                                |                            |
| <u>ASSETS</u>  |  |                                |                            |
| Cash   |  | \$ 15,851                      | \$ 16,833                  |
| Receivables  |  | 3,088                          | 0                          |
| Due from Other Funds   |  | 1,515                          | 0                          |
| Due from Other Governments                                     |  | 4,348                          | 7,394                      |
| <u>OTHER DEBITS</u>  |  |                                |                            |
| Amount to be Provided for Retirement of General Long-Term Debt |  | 0                              | 0                          |
| TOTAL ASSETS AND OTHER DEBITS                                  |  | <u>\$ 24,802</u>               | <u>\$ 24,227</u>           |
| <u>LIABILITIES AND FUND EQUITY</u>                             |  |                                |                            |
| <u>LIABILITIES</u>   |  |                                |                            |
| Accounts Payable   |  | \$ 1,058                       | \$ 8                       |
| Due to Other Funds   |  | 0                              | 1,515                      |
| Notes Payable  |  | 0                              | 0                          |
| Total Liabilities  |  | \$ 1,058                       | \$ 1,523                   |
| <u>FUND EQUITY</u>   |  |                                |                            |
| Fund Balance   |  |                                |                            |
| Unreserved   |  | 23,744                         | 22,704                     |
| TOTAL LIABILITIES AND FUND EQUITY                              |  | <u>\$ 24,802</u>               | <u>\$ 24,227</u>           |

The accompanying notes are an integral part of these financial statements.

EXHIBIT 1

| ACCOUNT<br>GROUP |        | TOTALS      |        |
|------------------|--------|-------------|--------|
| GENERAL          |        | (MEMORANDUM |        |
| LONG-TERM        |        | ONLY)       |        |
| DEBT             |        |             |        |
| <hr/>            |        |             |        |
| \$               | 0      | \$          | 32,684 |
|                  | 0      |             | 3,088  |
|                  | 0      |             | 1,515  |
|                  | 0      |             | 11,742 |
| <hr/>            |        |             |        |
|                  | 28,658 |             | 28,658 |
| <hr/>            |        |             |        |
| \$               | 28,658 | \$          | 77,687 |
| <hr/>            |        |             |        |
| <hr/>            |        |             |        |
| \$               | 0      | \$          | 1,066  |
|                  | 0      |             | 1,515  |
|                  | 28,658 |             | 28,658 |
| <hr/>            |        |             |        |
| \$               | 28,658 | \$          | 31,239 |
| <hr/>            |        |             |        |
|                  | 0      |             | 46,448 |
| <hr/>            |        |             |        |
| \$               | 28,658 | \$          | 77,687 |
| <hr/>            |        |             |        |
| <hr/>            |        |             |        |

VILLAGE OF TUSTIN, MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES

YEAR ENDED FEBRUARY 29, 2004

|   | GENERAL            | SPECIAL<br>REVENUE | TOTALS<br>(MEMORANDUM<br>ONLY) |
|---|--------------------|--------------------|--------------------------------|
| <u>REVENUES</u>   |                    |                    |                                |
| Taxes   | \$ 23,522          | \$ 0               | \$ 23,522                      |
| State Grants  | 25,425             | 28,768             | 54,193                         |
| Contributions from Local Units  | 4,622              | 0                  | 4,622                          |
| Interest and Rents  | 9,780              | 47                 | 9,827                          |
| Other Revenue   | 4,739              | 0                  | 4,739                          |
| Total Revenues  | <u>\$ 68,088</u>   | <u>\$ 28,815</u>   | <u>\$ 96,903</u>               |
| <u>EXPENDITURES</u>   |                    |                    |                                |
| Legislative   |                    |                    |                                |
| Village Council   | \$ 6,755           | \$ 0               | \$ 6,755                       |
| General Government  |                    |                    |                                |
| President   | 840                | 0                  | 840                            |
| Elections   | 627                | 0                  | 627                            |
| Clerk   | 5,539              | 0                  | 5,539                          |
| Treasurer   | 5,289              | 0                  | 5,289                          |
| Buildings and Grounds   | 20,139             | 0                  | 20,139                         |
| Public Works  | 45,868             | 17,099             | 62,967                         |
| Other Functions   | 9,621              | 0                  | 9,621                          |
| Capital Outlay  | 475                | 0                  | 475                            |
| Debt Service  | 10,126             | 4,307              | 14,433                         |
| Total Expenditures  | <u>\$ 105,279</u>  | <u>\$ 21,406</u>   | <u>\$ 126,685</u>              |
| Excess of Revenues Over<br>(Under) Expenditures                             | <u>\$ (37,191)</u> | <u>\$ 7,409</u>    | <u>\$ (29,782)</u>             |
| <u>OTHER FINANCING SOURCES</u>  |                    |                    |                                |
| Loan Proceeds   | 30,000             | 0                  | 30,000                         |
| Excess of Revenues and Other Financing<br>Sources Over (Under) Expenditures | <u>\$ (7,191)</u>  | <u>\$ 7,409</u>    | <u>\$ 218</u>                  |
| <u>FUND BALANCES</u> - Beginning of Year                                    | <u>30,935</u>      | <u>15,295</u>      | <u>46,230</u>                  |
| <u>FUND BALANCES</u> - End of Year  | <u>\$ 23,744</u>   | <u>\$ 22,704</u>   | <u>\$ 46,448</u>               |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TUSTIN, MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES

YEAR ENDED FEBRUARY 29, 2004

|   | GENERAL FUND |             |   |
|---|--------------|-------------|---|
|   | BUDGET       | ACTUAL      | VARIANCE-<br>FAVORABLE<br>(UNFAVORABLE) |
| <u>REVENUES</u>   |              |             |   |
| Taxes   | \$ 21,000    | \$ 23,522   | \$ 2,522                                |
| State Grants  | 26,000       | 25,425      | (575)                                   |
| Contributions from Local Units  | 3,500        | 4,622       | 1,122                                   |
| Interest and Rents  | 7,330        | 9,780       | 2,450                                   |
| Other Revenues  | 1,000        | 4,739       | 3,739                                   |
| Total Revenues  | \$ 58,830    | \$ 68,088   | \$ 9,258                                |
| <u>EXPENDITURES</u>   |              |             |   |
| Legislative   |              |             |   |
| Village Council   | \$ 9,090     | \$ 6,755    | \$ 2,335                                |
| General Government  |              |             |   |
| President   | 840          | 840         | 0                                       |
| Elections   | 500          | 627         | (127)                                   |
| Clerk   | 5,475        | 5,539       | (64)                                    |
| Treasurer   | 5,600        | 5,289       | 311                                     |
| Buildings and Grounds   | 22,750       | 20,139      | 2,611                                   |
| Public Works  | 28,096       | 45,868      | (17,772)                                |
| Other Functions   | 8,638        | 9,621       | (983)                                   |
| Capital Outlay  | 1,000        | 475         | 525                                     |
| Debt Service  | 0            | 10,126      | (10,126)                                |
| Total Expenditures  | \$ 81,989    | \$ 105,279  | \$ (23,290)                             |
| Excess of Revenues Over (Under) Expenditures                                | \$ (23,159)  | \$ (37,191) | \$ (14,032)                             |
| <u>OTHER FINANCING SOURCES</u>  |              |             |   |
| Loan Proceeds   | 0            | 30,000      | 30,000                                  |
| Excess of Revenues and Other Financing<br>Sources Over (Under) Expenditures | \$ (23,159)  | \$ (7,191)  | \$ 15,968                               |
| <u>FUND BALANCES</u> - Beginning of Year                                    | 20,859       | 30,935      | 10,076                                  |
| <u>FUND BALANCES</u> - End of Year - (Deficit)                              | \$ (2,300)   | \$ 23,744   | \$ 26,044                               |

The accompanying notes are an integral part of these financial statements.



EXHIBIT 3SPECIAL REVENUE FUND TYPES

| <u>BUDGET</u>    | <u>ACTUAL</u>    | <u>VARIANCE-<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|------------------|------------------|--|
| \$ 0             | \$ 0             | \$ 0   |
| 25,300           | 28,768           | 3,468  |
| 0                | 0                | 0  |
| 55               | 47               | (8)  |
| 0                | 0                | 0  |
| <u>\$ 25,355</u> | <u>\$ 28,815</u> | <u>\$ 3,460</u>                                  |
| <br>             |                  |  |
| \$ 0             | \$ 0             | \$ 0   |
| 0                | 0                | 0  |
| 0                | 0                | 0  |
| 0                | 0                | 0  |
| 0                | 0                | 0  |
| 0                | 0                | 0  |
| 11,711           | 17,099           | (5,388)  |
| 0                | 0                | 0  |
| 0                | 0                | 0  |
| 4,300            | 4,307            | (7)  |
| <u>\$ 16,011</u> | <u>\$ 21,406</u> | <u>\$ (5,395)</u>                                |
| <br>             |                  |  |
| \$ 9,344         | \$ 7,409         | \$ (1,935)                                       |
| <br>             |                  |  |
| 0                | 0                | 0  |
| <br>             |                  |  |
| \$ 9,344         | \$ 7,409         | \$ (1,935)                                       |
| <br>             |                  |  |
| 11,907           | 15,295           | 3,388  |
| <u>\$ 21,251</u> | <u>\$ 22,704</u> | <u>\$ 1,453</u>                                  |

VILLAGE OF TUSTIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Tustin, Michigan, is a general law village incorporated under the General Village Act of 1895. The accounting policies of the Village of Tustin, Michigan, conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The financial statements of the Village of Tustin include the accounts of all operations. The Village's major operations include highways and streets, public improvements, and general administrative services.

The criteria used in determining the scope of the reporting entity are the exercise of oversight responsibility, scope of public service and special financing relationships. Based on the criteria, there are no associated organizations which should be included in the Village's financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Village are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Village does not maintain a general fixed asset account group.

The Village has the following fund types and account group:

Governmental funds are used to account for the Village's general government activities. Governmental fund types use the flow of financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

VILLAGE OF TUSTIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

Property taxes and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Village and are recognized as revenue at that time. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met.

Governmental funds include the following fund types:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specified purposes.

Account Group. The general long-term debt account group is used to account for general long-term debt.

C. Assets, Liabilities and Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Village of Tustin Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Village at the first meeting of each fiscal year.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

- (d) Repurchase agreements consisting of instruments listed in (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Township. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- (h) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

2. Receivables and Payables

Outstanding balances between funds are reported as "due to/from other funds".

3. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The Village bills its property taxes in July of each year and collects them through September 15, at which time they are returned delinquent to Osceola County. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations.

4. Fixed Assets and Long-Term Liabilities

Fixed assets used in governmental fund types (general fixed assets) should be accounted for in the General Fixed Assets Account Group, rather than in governmental funds. The Village of Tustin has not established a General Fixed Asset Account Group.

VILLAGE OF TUSTIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

The Village of Tustin reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

5. Memorandum Only - Total Columns

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

6. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

NOTE II - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The budgets for the General Fund and Special Revenue Funds are developed by the Village treasurer and adopted by the Village Council at the first meeting in March of the current fiscal year, after a public hearing to obtain taxpayer comments.
2. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted or as amended by the Village Council from time to time throughout the year.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

3. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Expenditures in Excess of Appropriations

1. Expenditures of \$105,279 exceeded appropriations of \$81,989 by \$23,290 in the General Fund.
2. Expenditures of \$11,158 exceeded appropriations of \$7,429 by \$3,729 in the Major Street Fund.
3. Expenditures of \$10,248 exceeded appropriations of \$8,582 by \$1,666 in the Local Street Fund.

NOTE III - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUP

A. Deposits and Investments

At year-end, the carrying amount of the Village's regular deposits was \$32,684 and the bank balance was \$32,696 all of which was covered by federal depository insurance. All deposits at year-end were in Lake Osceola State Bank, Tustin, Michigan.

B. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances - such balances at February 29, 2004, were:

| <u>FUND</u>           | <u>INTERFUND<br/>RECEIVABLES</u> | <u>INTERFUND<br/>PAYABLES</u> |
|-----------------------|----------------------------------|-------------------------------|
| General Fund          | \$ 1,515                         | \$ 0                          |
| Special Revenue Funds |                                  |                               |
| Major Street Fund     | 0                                | 985                           |
| Local Street Fund     | 0                                | 530                           |
|                       | <u>\$ 1,515</u>                  | <u>\$ 1,515</u>               |

VILLAGE OF TUSTIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

C. Due from Other Governments

The \$11,742 due from other governments represents receivables from the State of Michigan for various state revenue sharing payments received within sixty days of the balance sheet date.

D. Long-Term Debt

The following is a summary of the long-term debt transactions of the Village for the year ended February 29, 2004:

|  | PAVING<br>LOAN | SIDEWALK<br>CONSTRUCTION<br>LOAN | TOTAL     |
|--|----------------|----------------------------------|-----------|
| Long-Term Debt Payable<br>at March 1, 2003     | \$ 10,773      | \$ 0                             | \$ 10,773 |
| Increase in Debt                               | 0              | 30,000                           | 30,000    |
| Long-Term Debt Retired                         | (3,696)        | (8,419)                          | (12,115)  |
| Long-Term Debt Payable<br>at February 29, 2004 | \$ 7,077       | \$ 21,581                        | \$ 28,658 |

Long-term debts at February 29, 2004, are comprised of the following individual amounts:

|  |           |
|--|-----------|
| Retail Installment Contract payable to Lake-Osceola State Bank<br>\$15,065 loan to finance paving of N. Neilson, dated November 16, 2001,<br>due in 20 quarterly payments of \$1,077 beginning February 16, 2002,<br>including interest at 6.50%, unsecured. | \$ 7,077  |
| Retail Installment Contract payable to Lake-Osceola State Bank<br>\$30,000 loan to finance sidewalk construction, dated May 2,<br>2003, due in 10 quarterly payments of \$3,309 beginning<br>August 2, 2003, including interest at 6.95%, unsecured.         | 21,581    |
| Total  | \$ 28,658 |

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2004

The annual requirements to amortize these debts outstanding as of February 29, 2004, including interest payments of \$1,984, are as follows:

| <u>YEAR ENDING FEBRUARY 28,</u> | <u>INSTALLMENT<br/>LOAN</u> | <u>INSTALLMENT<br/>LOAN</u> | <u>TOTAL</u>     |
|---------------------------------|-----------------------------|-----------------------------|------------------|
| 2005                            | \$ 4,307                    | \$ 13,235                   | \$ 17,542        |
| 2006                            | 3,231                       | 9,869                       | 13,100           |
|                                 | <u>\$ 7,538</u>             | <u>\$ 23,104</u>            | <u>\$ 30,642</u> |

NOTE IV - OTHER INFORMATION

A. Property Taxes

The Village levied 10.000 mills on a state taxable valuation of \$2,332,171, on the 2003 tax roll.

B. Interest Income and Expense

For the year ended February 29, 2004, total interest income was \$131 and total interest expense was \$2,318.

C. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Village participates in a pool of municipalities with the State of Michigan for self-insuring property and casualty, crime, general liability and errors and omissions insurance. The Village pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

The Village continues to carry commercial insurance for other risks of loss, including worker's compensation insurance and fidelity bonds.



VILLAGE OF TUSTIN, MICHIGANGENERAL FUND  
BALANCE SHEETFEBRUARY 29, 2004ASSETS

|                            |                  |
|----------------------------|------------------|
| Cash on Deposit            |                  |
| Checking Account           |                  |
| Taxes Receivable           | \$ 15,851        |
| Due from Other Funds       | 3,088            |
| Major Street Fund          |                  |
| Local Street Fund          | 985              |
| Due from Other Governments | 530              |
|                            | <u>4,348</u>     |
| TOTAL ASSETS               | \$ <u>24,802</u> |

LIABILITIES AND FUND BALANCELIABILITIES

Accounts Payable

\$ 1,058

FUND BALANCE

Unreserved

23,744

TOTAL LIABILITIES AND FUND BALANCE

\$ 24,802

VILLAGE OF TUSTIN, MICHIGANGENERAL FUNDSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUALYEAR ENDED FEBRUARY 29, 2004

| <u>REVENUES - STATEMENT A-3</u>  | <u>BUDGET</u> | <u>ACTUAL</u> |
|--|---------------|---------------|
| Taxes  | \$ 21,000     | \$ 23,522     |
| State Grants   | 26,000        | 25,425        |
| Contributions from Local Units   | 3,500         | 4,622         |
| Interest and Rents   | 7,330         | 9,780         |
| Other Revenue  | 1,000         | 4,739         |
| Total Revenues   | \$ 58,830     | \$ 68,088     |
| <u>EXPENDITURES - STATEMENT A-4</u>  |               |               |
| Legislative  |               |               |
| Village Council  | \$ 9,090      | \$ 6,755      |
| General Government   |               |               |
| President  | 840           | 840           |
| Elections  | 500           | 627           |
| Clerk  | 5,475         | 5,539         |
| Treasurer  | 5,600         | 5,289         |
| Buildings and Grounds  | 22,750        | 20,139        |
| Public Works   | 28,096        | 45,868        |
| Other Functions  | 8,638         | 9,621         |
| Capital Outlay   | 1,000         | 475           |
| Debt Service   | 0             | 10,126        |
| Total Expenditures   | \$ 81,989     | \$ 105,279    |
| Excess of Revenues Over (Under) Expenditures                                       | \$ (23,159)   | \$ (37,191)   |
| <u>OTHER FINANCING SOURCES (USES)</u>  |               |               |
| Loan Proceeds  | 0             | 30,000        |
| Excess of Revenues and Other Sources Over (Under)<br>Expenditures and Other (Uses) | \$ (23,159)   | \$ (7,191)    |
| <u>FUND BALANCE - Beginning of Year</u>  | 20,859        | 30,935        |
| <u>FUND BALANCE - End of Year - (Deficit)</u>                                      | \$ (2,300)    | \$ 23,744     |

VILLAGE OF TUSTIN, MICHIGANGENERAL FUNDANALYSIS OF REVENUES - BUDGET AND ACTUAL  
YEAR ENDED FEBRUARY 29, 2004

| <u>TAXES</u>                          | <u>BUDGET</u>    | <u>ACTUAL</u>    |
|---------------------------------------|------------------|------------------|
| Current Property Tax Levy             | \$ 21,000        | \$ 23,322        |
| Penalties on Delinquent Taxes         | 0                | 200              |
| Total Taxes                           | \$ 21,000        | \$ 23,522        |
| <u>STATE GRANTS</u>                   |                  |                  |
| Sales Tax                             | \$ 26,000        | \$ 25,425        |
| <u>CONTRIBUTIONS FROM LOCAL UNITS</u> |                  |                  |
| Burdell Township                      | \$ 3,500         | \$ 4,622         |
| <u>INTEREST AND RENTS</u>             |                  |                  |
| Interest                              | \$ 80            | \$ 84            |
| Equipment Rental                      | 7,000            | 9,471            |
| Hall Rental                           | 250              | 225              |
| Total Interest and Rents              | \$ 7,330         | \$ 9,780         |
| <u>OTHER REVENUE</u>                  |                  |                  |
| Contributions and Donations           | \$ 0             | \$ 1,008         |
| Sidewalk Reimbursements               | 0                | 1,845            |
| Refunds and Rebates                   | 0                | 1,726            |
| Miscellaneous                         | 1,000            | 160              |
| Total Other Revenue                   | \$ 1,000         | \$ 4,739         |
| <b>TOTAL REVENUES</b>                 | <b>\$ 58,830</b> | <b>\$ 68,088</b> |

VILLAGE OF TUSTIN, MICHIGANGENERAL FUNDANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL  
YEAR ENDED FEBRUARY 29, 2004

| <u>LEGISLATIVE</u>         | <u>BUDGET</u> | <u>ACTUAL</u> |
|----------------------------|---------------|---------------|
| Village Council            |               |               |
| Personal Services          |               |               |
| Salaries and Wages         |               |               |
| Supplies                   | \$ 3,040      | \$ 2,360      |
| Office Supplies            | 250           | 212           |
| Other Services and Charges |               |               |
| Professional Fees          | 3,000         | 1,384         |
| Miscellaneous              | 2,800         | 2,799         |
|                            |               |               |
| Total Legislative          | \$ 9,090      | \$ 6,755      |
| <u>GENERAL GOVERNMENT</u>  |               |               |
| President                  |               |               |
| Personal Services          |               |               |
| Salaries and Wages         | \$ 840        | \$ 840        |
| Elections                  |               |               |
| Supplies                   |               |               |
| Office Supplies            |               |               |
| Other Services and Charges | \$ 500        | \$ 581        |
| Publishing                 | 0             | 46            |
|                            | \$ 500        | \$ 627        |
| Clerk                      |               |               |
| Personal Services          |               |               |
| Salaries and Wages         | \$ 4,800      | \$ 4,850      |
| Supplies                   |               |               |
| Office Supplies            | 500           | 461           |
| Other Services and Charges |               |               |
| Publishing                 | 175           | 228           |
|                            | \$ 5,475      | \$ 5,539      |
| Treasurer                  |               |               |
| Personal Services          |               |               |
| Salaries and Wages         | \$ 4,800      | \$ 4,800      |
| Supplies                   |               |               |
| Office Supplies            | 400           | 248           |
| Other Services and Charges |               |               |
| Contracted Services        | 400           | 241           |
|                            | \$ 5,600      | \$ 5,289      |

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT A-

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL  
YEAR ENDED FEBRUARY 29, 2004

|                                    | <u>BUDGET</u>    | <u>ACTUAL</u>    |
|------------------------------------|------------------|------------------|
| Buildings and Grounds              |                  |                  |
| Personal Services                  |                  |                  |
| Salaries and Wages                 |                  |                  |
| Supplies                           | \$ 6,100         | \$ 5,194         |
| Operating Supplies                 | 1,300            | 1,396            |
| Other Services and Charges         |                  |                  |
| Heating Fuel                       | 2,100            | 2,468            |
| Public Utilities                   | 2,850            | 2,615            |
| Repairs and Maintenance            | 5,200            | 5,493            |
| Miscellaneous                      | 1,700            | 1,713            |
| Little Creek Park Expenses         | 3,500            | 1,260            |
|                                    | <u>\$ 22,750</u> | <u>\$ 20,139</u> |
| Total General Government           | <u>\$ 35,165</u> | <u>\$ 32,434</u> |
| <u>PUBLIC WORKS</u>                |                  |                  |
| Other Activities                   |                  |                  |
| Other Services and Charges         |                  |                  |
| Signs                              | \$ 1,500         | \$ 1,033         |
| Capital Outlay - Land Improvements |                  |                  |
| Sidewalks                          | 18,396           | 26,333           |
| Rails to Trails                    | 0                | 6,389            |
| Curbing                            | 0                | 7,388            |
| Highways, Streets and Bridges      |                  |                  |
| Other Services and Charges         |                  |                  |
| Repairs and Maintenance            | 4,000            | 600              |
| Street Lighting                    |                  |                  |
| Other Services and Charges         |                  |                  |
| Public Utilities                   | 4,200            | 4,125            |
| Total Public Works                 | <u>\$ 28,096</u> | <u>\$ 45,868</u> |
| <u>OTHER FUNCTIONS</u>             |                  |                  |
| Village Equipment                  |                  |                  |
| Supplies                           |                  |                  |
| Gasoline and Oil                   | \$ 500           | \$ 622           |
| Other Services and Charges         |                  |                  |
| Repair and Maintenance             | 600              | 1,253            |
| Insurance                          | 6,066            | 6,066            |

VILLAGE OF TUSTIN, MICHIGANGENERAL FUNDANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL  
YEAR ENDED FEBRUARY 29, 2004

|                              | <u>BUDGET</u>           | <u>ACTUAL</u>            |
|------------------------------|-------------------------|--------------------------|
| Fringe Benefits              |                         |                          |
| Social Security and Medicare | <u>1,472</u>            | <u>1,680</u>             |
| Total Other Functions        | \$ <u>8,638</u>         | \$ <u>9,621</u>          |
| <u>CAPITAL OUTLAY</u>        | \$ <u>1,000</u>         | \$ <u>475</u>            |
| <u>DEBT SERVICE</u>          |                         |                          |
| Principal                    | \$ 0                    | \$ 8,419                 |
| Interest                     | <u>0</u>                | <u>1,707</u>             |
| Total Debt Service           | \$ <u>0</u>             | \$ <u>10,126</u>         |
| TOTAL EXPENDITURES           | \$ <u><u>81,989</u></u> | \$ <u><u>105,279</u></u> |

VILLAGE OF TUSTIN, MICHIGANSPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETFEBRUARY 29, 2004

|                                       | MAJOR<br>STREET<br>FUND | LOCAL<br>STREET<br>FUND | TOTALS<br>(MEMORANDUM<br>ONLY) |
|---------------------------------------|-------------------------|-------------------------|--------------------------------|
| <u>ASSETS</u>                         |                         |                         |                                |
| Cash                                  |                         |                         |                                |
| Due from Other Governments            | \$ 13,247               | \$ 3,586                | \$ 16,833                      |
|                                       | 4,828                   | 2,566                   | 7,394                          |
| TOTAL ASSETS                          | \$ 18,075               | \$ 6,152                | \$ 24,227                      |
| <u>LIABILITIES AND FUND BALANCE</u>   |                         |                         |                                |
| <u>LIABILITIES</u>                    |                         |                         |                                |
| Accounts Payable                      | \$ 8                    | \$ 0                    | \$ 8                           |
| Due to General Fund                   | 985                     | 530                     | 1,515                          |
| Total Liabilities                     | \$ 993                  | \$ 530                  | \$ 1,523                       |
| <u>FUND BALANCE</u>                   |                         |                         |                                |
| Unreserved                            | 17,082                  | 5,622                   | 22,704                         |
| TOTAL LIABILITIES<br>AND FUND BALANCE | \$ 18,075               | \$ 6,152                | \$ 24,227                      |

VILLAGE OF TUSTIN, MICHIGANSPECIAL REVENUE FUNDSCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEYEAR ENDED FEBRUARY 29, 2004

|  | MAJOR<br>STREET<br>FUND | LOCAL<br>STREET<br>FUND | TOTALS<br>(MEMORANDUM<br>ONLY) |
|--|-------------------------|-------------------------|--------------------------------|
| <u>REVENUES</u>  |                         |                         |                                |
| State Grants   | \$ 20,791               | \$ 7,977                | \$ 28,768                      |
| Interest and Rents   | 41                      | 6                       | 47                             |
| Total Revenues   | \$ 20,832               | \$ 7,983                | \$ 28,815                      |
| <u>EXPENDITURES</u>  |                         |                         |                                |
| Public Works   | \$ 11,158               | \$ 5,941                | \$ 17,099                      |
| Debt Service   | 0                       | 4,307                   | 4,307                          |
| Total Expenditures   | \$ 11,158               | \$ 10,248               | \$ 21,406                      |
| Excess of Revenues Over<br>(Under) Expenditures  | \$ 9,674                | \$ (2,265)              | \$ 7,409                       |
| <u>OTHER FINANCING SOURCES (USES)</u>  |                         |                         |                                |
| Transfer Out   | \$ (4,800)              | \$ 0                    | \$ (4,800)                     |
| Transfer In  | 0                       | 4,800                   | 4,800                          |
| Excess of Revenues and Other Financing Sources<br>Over (Under) Expenditures and Other (Uses) | \$ 4,874                | \$ 2,535                | \$ 7,409                       |
| <u>FUND BALANCES</u> - Beginning of Year   | 12,208                  | 3,087                   | 15,295                         |
| <u>FUND BALANCES</u> - End of Year   | \$ 17,082               | \$ 5,622                | \$ 22,704                      |



VILLAGE OF TUSTIN, MICHIGANMAJOR STREET FUND  
BALANCE SHEETFEBRUARY 29, 2004ASSETSCash on Deposit  
Due from Other Governments\$ 13,247  
4,828

TOTAL ASSETS

\$ 18,075

LIABILITIES AND FUND BALANCELIABILITIESAccounts Payable  
Due to Other Funds\$ 8  
985

Total Liabilities

\$ 993

FUND BALANCE

Unreserved

17,082

TOTAL LIABILITIES AND FUND BALANCE

\$ 18,075

VILLAGE OF TUSTIN, MICHIGAN

MAJOR STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 29, 2004

| <u>REVENUES</u>  | <u>BUDGET</u> | <u>ACTUAL</u> |
|--|---------------|---------------|
| State Grants   |               |               |
| Act 51 Distributions   | \$ 19,000     | \$ 20,791     |
| Interest and Rents   |               |               |
| Interest   | 50            | 41            |
| Total Revenues   | \$ 19,050     | \$ 20,832     |
| <u>EXPENDITURES</u>  |               |               |
| Administration and Engineering   | \$ 338        | \$ 312        |
| Routine Maintenance  | 2,000         | 4,587         |
| Equipment Rental   | 5,000         | 6,168         |
| Traffic Services   | 91            | 91            |
| Total Expenditures   | \$ 7,429      | \$ 11,158     |
| Excess of Revenues Over (Under) Expenditures   | \$ 11,621     | \$ 9,674      |
| <u>OTHER FINANCING SOURCES (USES)</u>  |               |               |
| Transfer Out   | 0             | (4,800)       |
| Excess of Revenues and Other Financing Sources<br>Over (Under) Expenditures and Other Uses | \$ 11,621     | \$ 4,874      |
| <u>FUND BALANCE</u> - Beginning of Year  | 9,550         | 12,208        |
| <u>FUND BALANCE</u> - End of Year  | \$ 21,171     | \$ 17,082     |

VILLAGE OF TUSTIN, MICHIGANLOCAL STREET FUND  
BALANCE SHEETFEBRUARY 29, 2004ASSETSCash on Deposit  
Due from Other Governments\$ 3,586  
2,566

TOTAL ASSETS

\$ 6,152

LIABILITIES AND FUND BALANCELIABILITIES

Due to General Fund

\$ 530

FUND BALANCE

Unreserved

5,622

TOTAL LIABILITIES AND FUND BALANCE

\$ 6,152

VILLAGE OF TUSTIN, MICHIGAN

LOCAL STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 29, 2004

| <u>REVENUES</u>  | <u>BUDGET</u> | <u>ACTUAL</u> |
|--|---------------|---------------|
| State Grants   |               |               |
| Act 51 Distributions   | \$ 6,300      | \$ 7,977      |
| Interest and Rents   |               |               |
| Interest   | 5             | 6             |
| Total Revenues   | \$ 6,305      | \$ 7,983      |
| <u>EXPENDITURES</u>  |               |               |
| Administration and Engineering   | \$ 182        | \$ 168        |
| Routine Maintenance  | 1,300         | 2,470         |
| Equipment Rental   | 2,800         | 3,303         |
| Debt Service   |               |               |
| Principal  | 4,300         | 3,696         |
| Interest   | 0             | 611           |
| Total Expenditures   | \$ 8,582      | \$ 10,248     |
| Excess of Revenues Over (Under) Expenditures   | \$ (2,277)    | \$ (2,265)    |
| <u>OTHER FINANCING SOURCE (USES)</u>   |               |               |
| Transfer In  | 0             | 4,800         |
| Excess of Revenues and Other Financing Sources<br>Over (Under) Expenditures and Other (Uses) | \$ (2,277)    | \$ 2,535      |
| <u>FUND BALANCE</u> - Beginning of Year  | 2,357         | 3,087         |
| <u>FUND BALANCE</u> - End of Year  | \$ 80         | \$ 5,622      |

VILLAGE OF TUSTIN, MICHIGAN  
STATEMENT OF GENERAL LONG-TERM DEBT  
YEAR ENDED FEBRUARY 29, 2004

AMOUNT TO BE PROVIDED FOR PAYMENT OF LONG-TERM DEBT

|  |               |
|--|---------------|
| Amount to be Provided from Special Revenue Fund Revenues | \$ 7,077      |
| Amount to be Provided from General Fund Revenues         | <u>21,581</u> |

|   |                  |
|---|------------------|
| TOTAL AMOUNT TO BE PROVIDED FOR PAYMENT OF LONG-TERM DEBT | <u>\$ 28,658</u> |
|---|------------------|

LONG-TERM DEBT OUTSTANDING

|                                      |               |
|--------------------------------------|---------------|
| Note Payable - Paving                | \$ 7,077      |
| Note Payable - Sidewalk Construction | <u>21,581</u> |

|                                  |                  |
|----------------------------------|------------------|
| TOTAL LONG-TERM DEBT OUTSTANDING | <u>\$ 28,658</u> |
|----------------------------------|------------------|

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF 2003 TAX ROLL  
YEAR ENDED FEBRUARY 29, 2004

TAXES ASSESSED (Taxable Valuation \$2,332,171)  
General Fund - 10.0000 Mills

\$ 23,322

TAXES COLLECTED  
General Fund

20,233

TAXES RETURNED DELINQUENT  
General Fund

\$ 3,089

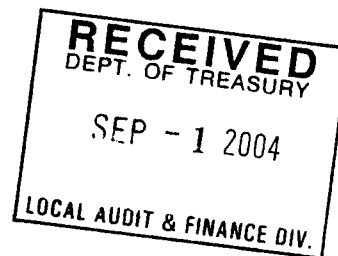
134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
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SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS



July 7, 2004

To the Village Council  
Village of Tustin  
Tustin, Michigan

During the course of our audit of the general-purpose financial statements of the Village of Tustin, Michigan, for the year ended February 29, 2004, we noted the following items which we believe should be considered relative to the management and accounting policies of the Village:

Budgeting

Certain line items exceed budgeted amounts during the year under audit. State law requires the village to amend its budget before incurring expenditures that would otherwise exceed the budget. As a practical matter this would mean the Village should adopt its new year budget before incurring any expense, and should amend its budget before exceeding current budgeted amounts.

Additionally, the Village amended its budget during the year without specifying which other expenses would be decreased, resulting in the ending estimated fund balance being negative, which is a violation of P.A. 621.

Governmental Accounting Standards Board (GASB) Statement 34

GASB has issued its new financial accounting model for governmental entities. This pronouncement will become effective for the Village of Tustin for its fiscal year ending February 28, 2005. The most significant change will be the requirement to report cost and depreciation information for fixed assets such as buildings, equipment and roads. In order to implement the new standard in 2004-2005, fixed asset data must be available as of March 1, 2004. The Council has obtained the necessary information and appears to be ready to implement the new standard.

We wish to express our appreciation for the cooperation and courtesy extended our staff by the various Village officers during the course of our examination. In addition, we would like to thank the Village Council for giving us this opportunity to serve you. If you have any questions relative to the above comments and recommendations, or other areas of your audit, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

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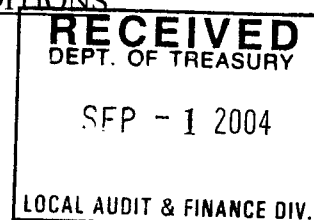
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JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

July 7, 2004

LETTER OF REPORTABLE CONDITIONS

To the Village Council  
Village of Tustin  
Tustin, Michigan



In planning and performing our audit of the financial statements of the Village of Tustin, Michigan for the year ended February 29, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.



July 7, 2004

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.